

Message Text

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72

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CU-04 IO-14 SPC-03 AID-20 EB-11

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CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 PA-04 PRS-01 USIA-15 DRC-01

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R 141621Z DEC 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 5467

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FINANCE MINISTER ON MONETARY REFORM

1. SUMMARY. ON DECEMBER 13 FINANCE MINISTER GISCARD D'ESTAING ADDRESSED PARIS UNIVERSITY LAW AND ECONOMICS STUDENTS ON MONETARY REFORM. HE AGAIN PLUGGED FOR ARRANGEMENT WHEREBY CENTRAL BANKS WOULD UNDERTAKE GOLD SETTLEMENTS AMONG ONE ANOTHER AT MARKET-BASED PRICE, AND URGED THAT EC TAKE LEAD IN THIS MATTER. HE ALSO CALLED FOR INTERNATIONAL COOPERATIVE EFFORT TO CONTROL EURO-CURRENCY MARKET. FINALLY HE EXPRESSED VIEW THAT BECAUSE OF PRESENT WORLD ECONOMIC DIFFICULTIES,
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C-20 WOULD NOT BE ABLE MEET JULY 31 TARGET FOR BROAD OVERALL

AGREEMENT ON MONETARY REFORM. HE NEVERTHELESS THOUGHT IT WOULD BE POSSIBLE BY THAT TIME WRAP UP AGREEMENT ON SOME ISSUES, INCLUDING ADJUSTMENT PROCESS BUT -- SURPRISINGLY -- NOT CONVERTIBILITY. END SUMMARY.

2. ON DECEMBER 13 FRENCH ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAING ADDRESSED STUDENTS OF UNIVERSITY OF PARIS LAW AND ECONOMICS FACULTY ON SUBSTANCE AND CALENDAR OF MONETARY REFORM NEGOTIATIONS. MINISTER SPOKE WITHOUT PREPARED TEXT. ACCORDING TO PRESS REPORTS, HIS PRESENTATION INCLUDED FOLLOWING POINTS:

(1) GOLD. OBJECTIVE SHOULD BE TO MAKE GOLD "RAW MATERIAL WITH MONETARY USE." IT MUST BE TURNED INTO SOMETHING COMMONPLACE, DEPRIVED OF ITS "QUASI-SACRED CHARACTER." TO THIS END, GISCARD PROPOSED FOLLOWING ACTIONS:

(A) GRADUALLY ELIMINATE PARTITIONS BETWEEN OFFICIAL MARKET (WHERE NO TRANSACTIONS TAKE PLACE) AND SO-CALLED FREE MARKET.

(B) ALLOW CENTRAL BANKS UNDERTAKE GOLD SETTLEMENTS WITH EACH OTHER AT PRICES BASED ON MARKET PRICE.

(C) EC CENTRAL BANKS SHOULD SET EXAMPLE BY WORKING OUT SUCH ARRANGEMENTS WITHIN FRAMEWORK EUROPEAN MONETARY COOPERATION FUND.

"THIS DECISION SHOULD NOT ANTICIPATE WORLDWIDE SETTLEMENT OF QUESTION, WITH THE EUROPEAN CENTRAL BANKS POSING THE PRINCIPLE THAT THEY WOULD UNDERTAKE TRANSACTIONS ON MARKETS ONLY TO MAINTAIN LEVEL OF THEIR STOCKS."

(2) EURO-CURRENCY MARKET. ESSENTIAL THAT REFORM ADDRESS THIU PROBLEM, FOR MARKET IS INFLATIONARY, AND ITS LIQUIDITY IS SOURCE OF MONETARY INSTABILITY. HERE GISCARD PROPOSED:

(A) DEFICIT COUNTRIES SHOULD BE REQUESTED IMPOSE CEILINGS ON LENDING BY THEIR BANKS TO NONRESIDENTS;

(B) CONTROL CIRCULATION OF EURO-CURRENCIES THROUGH CLOSE INTER-
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NATIONAL COOPERATION TO ASEMBLE STATISTICAL DATA RE MARKET, THROUGH SURVEILLANCE OF BOTH LENDING AND BORROWING, AND THROUGH RESPECT OF PROHIBITION IMPOSED ON CENTRAL BANKS NOT TO PUT FUNDS INTO MARKET;

(C) IMPOSE MANDATORY RESERVE REQUIREMENT TO LIMIT CREDIT-EXTENDING CAPACITY OF "EURO-BANKS".

(D) EC SHOULD TAKE LEAD IN THIS AREA, AND FRANCE WILL HAVE SOME SUGGESTIONS TO MAKE.

(3) CALENDAR OF REFORM NEGOTIATIONS. C-20 WILL NOT BE ABLE MAKE JULY 31 TARGET SET AT NAIROBI FOR BROAD AGREEMENT ON MONETARY REFORM. BECAUSE OF EVENTS NOW SHAKING WORLD ECONOMY, THIS TARGET NO LONGER REALISTIC, NOR IN SOME RESPECTS DESIRABLE. NONETHELESS, IT SHOULD BE POSSIBLE REACH AGREEMENT BETWEEN NOW AND END JULY IN FOLLOWING AREAS: EXCHANGE RATE REGIME, ADJUSTMENT PROCESS, CONSOLIDATION OF DOLLAR BALANCES, NUMERAIRE, AND STATUS OF IMF. QUESTIONS OF ROLE OF GOLD, CONVERTIBILITY AND SDR-AID LINK WILL HAVE BE PUT OFF UNTIL LATER.IRWIN

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